

## Message Text

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45

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EB-11 OMB-01 ABF-01 STR-08 CEA-02

CIAE-00 INR-10 NSAE-00 RSC-01 L-03 DRC-01 CIEP-02

IO-14 FRB-02 /093 W

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R 261819Z OCT 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5125

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

UNCLAS SECTION 01 OF 02 LONDON 12519

DEPARTMENT FOR FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 26

BEGIN SUMMARY: IN SPITE OF A CONFUSED INTERNATIONAL SITUATION, THE POUND WAS RELATIVELY STABLE THIS WEEK, REACHING A HIGH OF \$2.4455 AGAINST THE DOLLAR ON TUESDAY (OCTOBER 23) AND THEN FALLING BACK TO CLOSE AT \$2.4430 ON BOTH WEDNESDAY AND THURSDAY, DOWN ONLY 15

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POINTS ON LAST THURSDAY'S CLOSE. THE TRADE-WEIGHTED

DEVALUATION OF STERLING AGAINST DECEMBER 1971 RATES RANGED BETWEEN 19.16 PERCENT AND 19.27 PERCENT THIS WEEK. GOLD ROSE TO \$101.50 ON TUESDAY (OCTOBER 23), FELL BACK TO \$99.75 ON WEDNESDAY, AND ROSE TO \$100.25 ON THURSDAY, DOWN \$1.75 FROM LAST THURSDAY'S CLOSE. RETAIL PRICES CONTINUED TO RISE IN SEPTEMBER AND NOW STAND 9.3 PERCENT ABOVE A YEAR AGO. THE PACE OF CONSUMER SPENDING SEEMS TO BE SLOWING, WITH FIGURES FOR THE THIRD QUARTER SHOWING RELATIVELY LITTLE CHANGE FROM THE FIRST AND SECOND QUARTERS. THE MONEY SUPPLY (M3) CONTINUED TO GROW RAPIDLY IN THE PERIOD TO MID-SEPTEMBER. THE FALL OF 1/4 PERCENT IN THE BANK OF ENGLAND'S MINIMUM LENDING RATE LAST FRIDAY (OCTOBER 19) WAS THE FIRST DROP SINCE THE PEAK OF 11-1/2 PERCENT WAS SET ON JULY 27. END SUMMARY.

1. THE EXCHANGE MARKETS WERE GENERALLY CONFUSED THIS WEEK, REACTING TO THE DOMESTIC POLITICAL SITUATION IN THE U.S. AND EVENTS IN AND RELATED TO THE MIDDLE EAST. THE POUND ROSE MARGINALLY AT THE BEGINNING OF THE WEEK IN REACTION TO THE WEAKENING OF THE DOLLAR, BUT MOVED LOWER TOWARDS THE END OF THE WEEK TO CLOSE AT \$2.4430 ON THURSDAY (OCTOBER 25). THE TRADE-WEIGHTED DEVALUATION REACHED 19.25 PERCENT ON WEDNESDAY BUT NARROWED TO 19.18 PERCENT ON THURSDAY. GOLD FOLLOWED SOMEWHAT THE SAME TREND AS STERLING, REACHING \$101.50 ON TUESDAY (OCTOBER 23). IT CLOSED AT \$100.25 ON THURSDAY.

2. THE RETAIL PRICE INDEX ROSE A FURTHER 0.9 PERCENT IN SEPTEMBER TO 181.8 (JANUARY 1962-100), 9.3 PERCENT HIGHER THAN A YEAR AGO. THE RISE IN FOOD PRICES ALONE WAS 2.1 PERCENT - THE BIGGEST MONTHLY RISE FOR 2-1/2 YEARS, AND 15.1 PERCENT ABOVE A YEAR AGO. THESE FIGURES POINT TO AN ACCELERATION IN THE RATE OF INFLATION, WITH A RISE DURING THE LAST SIX MONTHS AT AN ANNUAL RATE OF 10.1 PERCENT.

3. THE VOLUME OF CONSUMERS' EXPENDITURE (1970 PRICES, S.A.) IN THE THIRD QUARTER WAS ABOUT 1 PERCENT HIGHER THAN IN THE SECOND QUARTER. WHEN THE FIRST NINE UNCLASSIFIED

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MONTHS OF 1973 ARE COMPARED TO THE SAME PERIOD FOR 1972, THE RISE IS JUST OVER 5 PERCENT. THE FIRST THREE QUARTERS' FIGURES FOR 1973 WERE 8,987 MILLION POUNDS, 8,811 MILLION POUNDS, AND 8,900 MILLION POUNDS RESPECTIVELY.

4. IN THE FIVE WEEKS TO SEPTEMBER 19, M1 FELL BY 265 MILLION POUNDS (2 PERCENT), WHILE M3 (S.A.) ROSE BY 720

MILLION POUNDS (2.5 PERCENT) WHEN COMPARED TO MID-AUGUST FIGURES. OVER THE LATEST THREE MONTHS, M1 (S.A.) IS LITTLE CHANGED, WHILE M3 HAS RISEN BY 7 PERCENT. THE BANK OF ENGLAND NOTES THAT NORMAL SEASONAL ADJUSTMENTS DO NOT YET ALLOW FOR THE CHANGED TIMING OF GOVERNMENT RECEIPTS ARISING FROM THE CHANGE THIS YEAR FROM PURCHASE TAX TO VALUE ADDED TAX. SMALLER-THAN-USUAL TRANSFERS OF TAX TO THE EXCHEQUER IN RECENT MONTHS WILL HAVE TENDED TO EXAGGERATE THE UNDERLYING GROWTH OF  
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DEPOSITS (AND THEREFORE THE MONEY SUPPLY) AND OF BANK LENDING TO THE GOVERNMENT AND TO REDUCE THE GROWTH OF BANK LENDING TO THE PRIVATE SECTOR. SOME, BUT NOT ALL, OF THESE MOVEMENTS WILL BE REVERSED LATER IN THE YEAR - PARTICULARLY IN OCTOBER WHEN TRANSFERS OF TAX WILL BE VERY LARGE. THERE WAS ALSO A RE-EMERGENCE OF ARBITRAGE TRANSACTIONS IN AUGUST (WHICH SEEM TO HAVE BEEN REVERSED ONLY TO A LIMITED EXTENT IN SEPTEMBER). THESE INFLUENCES AFFECT M3 MORE THAN M1. IF ROUGH CORRECTION IS MADE FOR UNCLASSIFIED

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THEM, THE RISE OF M3 OVER THE LATEST THREE MONTHS COULD BE PUT AT BETWEEN 6 AND 7 PERCENT, I.E. AN ANNUAL RATE OF BETWEEN 24 AND 28 PERCENT. BANK LENDING TO THE UK PRIVATE SECTOR IN STERLING ROSE BY 335 MILLION POUNDS (S.A.). THIS IS THE SMALLEST RISE FOR SOME MONTHS. THE RISE WAS REDUCED TO SOME EXTENT BY THE REVERSAL OF ARBITRAGE TRANSACTIONS REFERRED TO ABOVE.

5. THE MINIMUM LENDING RATE REMAINED AT 11-1/4 PERCENT THIS FRIDAY (OCTOBER 26). THE FALL IN THE RATE LAST WEEK COMES AGAINST A BACKGROUND OF A SIGNIFICANT EASING OF INTEREST RATES IN LONDON IN RECENT WEEKS FROM THE HIGH LEVELS REACHED IN THE MONEY MARKETS DURING THE SUMMER.

6. THE FORWARD DISCOUNT ON STERLING WIDENED SOMEWHAT TOWARDS THE END OF THE WEEK.

	10/18	10/25	CHANGE
1 MONTH	0.70	0.77	UP 0.07
3 MONTHS	2.25-1/2	2.41	UP 0.15-1/2
6 MONTHS	4.64-1/2	4.83-1/2	UP 0.19

(ALL FIGURES IN CENTS)

7. LOCAL AUTHORITY DEPOSIT RATES REMAINED QUITE STABLE OVER THE WEEK UNTIL THURSDAY (OCTOBER 25) WHEN THEY ROSE AT ALL MATURITIES.

	10/18	10/25	CHANGE
1 MONTH	13-1/8	13-1/4	UP 1/8
3 MONTHS	13-1/16	12-15/16	DOWN 1/8
6 MONTHS	13-1/16	13-3/16	UP 1/8

8. EURO-DOLLAR RATES FLUCTUATED IN A MIXED PATTERN BUT MOVED GENERALLY DOWNWARD OVER THE WEEK.

	10/18	10/25	CHANGE
1 MONTH	10-1/4	9-13/16	DOWN 7/16
3 MONTHS	9-7/8	9	DOWN 7/8
6 MONTHS	9-3/8	9	DOWN 3/8

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## Message Attributes

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**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
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